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TAGS: [EFIN](#) [ENRG](#) [ECON](#) [PGOV](#) [FR](#)

SUBJECT: GAZ DE FRANCE SHARE SALE RAISES OVER FOUR BILLION EUROS

Ref: A. 04 Paris 6157

[1](#)B. Paris 2721

[1](#)C. Paris 4900

[1](#)1. SUMMARY. Sixty years after the nationalization of the electricity and gas industries, the government has turned a historical page, selling shares in gas utility Gaz de France (GDF) for the first time. The GOF will keep a 79% stake in the partially privatized company. The sale process, including sales of shares to company employees, is scheduled to end in September. The government will use the 2.5 billion euros in expected proceeds to reduce public debt and to fund "innovative industries." GDF also sold new shares and plans to use its two billion euros in new capital to expand and to prepare for increasing national and international competition. END SUMMARY.

GOF Sells Shares, and GDF Creates New Shares

[1](#)2. The AMF (French equivalent of the SEC) gave the green light to the partial privatization of Gaz de France (GDF) on June 23. Both state-owned shares and new shares created by Gaz de France (GDF) were offered. The indicative price range for the global placement was between 20.7 and 24.0 euros. For the open price offer, the indicative range was between 20.50 and 23.80 euros. Investors had from June 23 until July 6 to submit their offers. Caylor, a unit of Credit Agricole, was the leading bank conducting the sale.

[1](#)3. Based on the maximum amount of stocks to be sold, the government is expected to keep a 79.45% stake in GDF. By law (ref A), the GOF must retain at least a 70 percent stake in the company.

[1](#)4. Investors leapt at the chance to get a piece of the world's biggest initial public offering in three years. The GDF offering was oversubscribed 27 times by institutional investors. Fund managers lined up for many more shares than were offered, at the top end of the 20.7 to 24.0 euro price range. Interestingly, around one-third of demand came from institutional investors in Paris, one third from investors in London, and 10% from investors in New York. Demand for the offer to individuals has been similarly strong with more than 3.2 million individuals responding to GDF's offer. GDF had advertised its plan to increase dividends paid to shareholders by 40% in 2006, and double them in 2007 and [1](#)2008.

[1](#)5. A further 15% of shares are expected to go to GDF employees at preferential conditions. GDF employees, and unions have opposed the sale, fearing the partial privatization of GDF would pave the way for job cuts, erode workers' rights and would be a "catastrophe" for the public service. Polls conducted in June showed a different picture as 60% of GDF employees and retirees wanted to become shareholders, while 20% were opposed to the sale. According to preliminary information, one out of two employees bought GDF shares. Delivery-settlement of shares to employees and retirees is planned for September 8.

[1](#)6. Existing and new GDF shares were listed as "GAZ" on the Euronext-Paris Eurolist starting on July 8. GDF shares increased to 27.8 euros in the first 15 minutes of trading. GDF, which describes itself as one of the largest "integrated and European" suppliers of gas, had a 27.1 billion euro capitalization (based on 27.8 euro price).

[1](#)7. GDF issued new shares to bolster its capital funds. These new funds (around two billion euros) will be used to carry out GDF's plan to expand in Europe, and face competition from other companies. The company expects competition to increase significantly after July 1, 2007, when all customers must be allowed to choose alternative gas and electricity suppliers (a requirement under EU

directives). In order to stay competitive, GDF will have to make significant investments in transport and distribution, as well as exploration and production.

18. The GDF sale share is expected to raise close to 2.5 billion euros for the government, after it exercises its option to issue more shares in light of strong demand. Proceeds will be used to cut spiraling public debt (according to EU rules, privatization proceeds cannot be directly used to reduce the government deficit), and help fund the new Agency for Industrial Innovation (ref C) and the national research agency.

Success Will Embolden GOF to Privatize Electricity Utility

19. Finance Minister Thierry Breton and Industry Minister Francois Loos welcomed the success of the GDF share offering. Speaking after Paris lost the Olympic Games to London, Breton said this was "very good news for those who think France is a bit too morose," also stressing the sale contributed to reinforce the "popular" shareholding, an important issue to the government, which is seeking to develop new financial culture (ref B).

110. The success of the offering has given impetus to the government's plan to move forward with other privatizations, including the full privatization of highway companies APRR, AF, and Sanef, which was announced on July 18, and the eventual partial privatization of electricity utility Electricite de France (EDF) by the autumn. On July 8, the government published a decree authorizing the sale of EDF shares to private investors. The three toll-road companies together could bring in as much as eleven billion euros into GOF coffers. The EDF offering is expected to raise 8 to 11 billion euro in capital to ease the company's stretched balance sheet and fund its plans in Europe. Breton said that "the government is continuing to encourage the development of state-owned enterprises in the energy sector." Reacting to this news, unions called for a counterattack in September. But, Breton warned that the government had to pursue the preparatory work for EDF's stock exchange listing, notably setting the conditions of the offer reserved for employees. Government privatization plans still include Aeroport de Paris and possibly Areva in 2006.

Comment

11. The success of the GDF partial privatization will certainly help the government, which appears firm in its desire to open the capital of EDF next. Nonetheless, EDF's partial privatization has larger financial stakes than GDF, and will be more controversial and, hence, more politically risky. The government will remain the major shareholder of both energy utilities. Nevertheless, privatizations are helping the GOF to raise desperately needed funds to cut public debt and support industrial projects. End comment.

STAPLETON